

AMERICA, JAPAN AND THE TRADING SYSTEM

Ambassador Charlene Barshefsky
United States Trade Representative

Tokyo American Center
Tokyo, Japan

May 13, 1999

Good morning. Thank you all for coming.

I am here in Tokyo for the meeting of the so-called "Quad" -- Japan, America, Canada and the European Union -- to begin building consensus for the WTO's Ministerial Conference in Seattle this fall, and for a new Round of global trade negotiations. I am also, of course, meeting with my counterparts from Ministries including MITI, MOFA, the Ministry of Posts and Telecommunications, and the Financial Supervisory Agency to discuss our bilateral agenda.

THE WORK AHEAD

It is clear, of course, that in both areas we have much work ahead.

As we prepare for a new Round at the WTO, the financial crisis illustrates the need for transparent, pro-competitive practices in services; agricultural trade remains plagued by trade barriers, subsidies and unscientific regulation; government procurement, competition policy, investment policies and other issues raise difficult questions.

In our bilateral relationship, we have much more to accomplish in market opening and deregulation. Steel is a sector of great sensitivity and visibility. We must ensure that our existing agreements are fully implemented. We are beginning our work on a third package of deregulation measures. And the sharp rise in our bilateral trade imbalance to \$64 billion last year -- and perhaps more this year -- increases the potential for tensions in the relationship as a whole.

This is a broad and complex agenda, and our work may not always be easy. But regardless of the strains of any particular moment, we should remember that we are building on a record of progress and achievement.

In trade, ours is the world's second-largest bilateral relationship. We worked together to create and strengthen the WTO. And we must cooperate in the work of the

future - from response to the financial crisis; to integrating China, Russia and others; to the new WTO Round.

THE FOUNDATION: BILATERAL RELATIONSHIP

But the foundation of cooperation in the trading system must be a strong bilateral relationship which offers both of us a sense of fairness, trust and mutual benefit.

This in turn requires a return to economic health in Japan. For eight years, Japanese families, businesses and consumers have endured sluggish growth and stagnation; in the past two years, slowdown has become recession. This has complicated the efforts of Japan's neighbors to recover from the crisis, as Japanese imports dropped significantly last year. It has also increased the potential for trade tensions as U.S. exports to Japan have dropped and the trade imbalance has grown.

To break this cycle, Japan's government has committed to fiscal stimulus and financial reform, and taken the first steps towards a decisive break with the regulatory webs and closed markets that slow growth. And this is where our bilateral trade agenda joins with Japan's own goals. Over-regulation, lack of competition, market access barriers, and tolerance of formal and informal cartels in many industrial sectors block imports but also frustrate those Japanese who hope to set up their own companies, and weaken the entire Japanese economy. And our 37 trade agreements with Japan, in fields from agricultural commodities to insurance, high tech and manufacturing, are directed at precisely these barriers. Thus they offer a chance for faster growth and the opportunity for more young people to become entrepreneurs, with all the benefits -- jobs, healthier companies, higher living standards, confidence in the future.

DEREGULATION INITIATIVE

Our bilateral Enhanced Initiative on Deregulation and Competition Policy sets the same goals. Sector by sector, over the past two years, we have worked to remove unnecessary and burdensome regulation, improve transparency, enhance competition, and create new opportunities for international and Japanese businesses.

The agreement we reached during Prime Minister Obuchi's visit last week takes this a step further. We agreed that Japan will take concrete measures on such issues as:

- interconnection, liberalized network arrangements and cable TV in telecommunications;
- performance-based standards, transparency and non-discrimination in housing;
- regulatory transparency, expedited approvals and acceptance of clinical test data in medical devices and pharmaceuticals;

- reforms in financial services including eased registration for securities companies, expansion of scope of activities for banks and securities firms;
- simplification of regulations and harmonization of standards in the energy sector;
- adoption of nationally applicable guidelines on operation of large-scale retail store laws;
- use of "Public Comment Procedures" to increase the transparency of policy formulation and implementation; and
- advocacy of policies throughout the economy that will help create competition.

Finally, we agreed to extend the Enhanced Initiative for a third year, to build on our progress and expand it to new areas and sectors of Japan's economy.

These are very positive steps. Prime Minister Obuchi and his government deserve credit for them. But much work remains ahead. In areas where we have reached agreement on paper, full and quick implementation is critical. And they are only a few of the issues we must address to ensure the success of economic restructuring and improve market access.

We also concluded a joint report on investment during the Prime Minister's visit. This focuses on measures that can improve the environment for foreign direct investment in Japan, including actions to develop a more active mergers and acquisitions market; improve foreign investors' access to land; and eliminate rigidities in labor markets. This will offer American and other foreign companies new opportunities to enter the Japanese market, and give Japanese firms access to foreign capital and management ideas that will assist in the national restructuring effort.

PERSISTENT CHALLENGES

These advances are important. But we must go further and also faster, because in several areas tension in our trade relationship has grown rather than diminished in the past year.

That is especially true in steel. Last year's import surge has raised immense frustration in Congress and industry. It is hard to overstate the tension in the U.S. surrounding this issue.

Our Administration is committed to bring the problem to an end. We will remain within the framework of our WTO commitments, but we will strongly enforce our laws on dumping, and we expect that steel exports will return to their levels before the financial

crisis on a sustained basis. As the President told Prime Minister Obuchi, if they do not, we will act.

But it is also true in a number of other issues. On flat glass, autos and auto parts, insurance, and government procurement we have serious concerns about implementation of our trade agreements. Full adherence to their spirit and letter is essential to trust and progress in the bilateral relationship. Failures of implementation lead to rapid erosion of trust and rising tension.

And Japan, the world's second largest economy, has not played the leadership role it should in supporting Asian recovery or in the Asia-Pacific Economic Cooperation (APEC) forum. Last year, the United States increased its imports of East Asian products by \$6 billion. Japan's purchases from the region fell \$19 billion. The APEC sectoral initiatives offer opportunities to Japan as a leader in pollution control technologies, energy equipment and other areas.

They are just as important for their concrete and rapid benefits to developing countries in fish and fishery products, wood products, and other sectors. This is essential to give the ASEAN countries and others opportunities to recover, and to strengthen their stake in the trading system.

Just as we should acknowledge our progress over the past months, we must also meet our challenges squarely. Much negative can arise from failure. Immensely positive things -- growth in Japan, strengthening of this most crucial relationship in Asia for the next century, a foundation for a new era of progress in the multilateral trading system -- can come from success.

AGENDA FOR A NEW ROUND

With that, I will turn to the topic that brought me here this week: the future of the WTO.

Since 1995, the WTO has proven itself a fundamental improvement over the GATT. It has created opportunities for growth and advanced the rule of law. It has helped contain the Asian financial crisis' threat to world prosperity.

And its balance of market access commitments and phase-ins give both developing and industrial countries confidence the system is generally fair. As one of the world's leading trading nations, Japan understands the value of this very well.

But the WTO is by no means perfect. It is incomplete. It does not include a number of major economies -- China, Russia, Saudi Arabia, Ukraine, and others -- and we are working toward commercially meaningful accessions in each case. And we are all aware of broader challenges the WTO must meet. From pressures created by the financial crisis, to persistent trade barriers, frustration in many developing countries over access to

industrial markets, and concerns in many developed nations over sustainable development and working conditions, more effective safety nets, and transparency in the trading system.

THE QUAD MEETING AND A NEW ROUND

Thus, if we do not improve the system, we may not only lose opportunities but see the strength of the system erode.

Japan's government and business community, I believe, recognize this as well. And in this context we, together with the European Union and Canada, have come to Tokyo to begin developing the agenda for a new Round.

In the past two days I have listened closely to Japan's ideas, and those of Canada and Europe. From our perspective, we are looking to a manageable agenda, which addresses the major priorities of the Quad members and developing countries. One which can be completed in three years and which uses the institutional structure of the WTO to work in three different dimensions: ongoing results, accelerated negotiations, and improvement of the WTO as an institution.

1. Ongoing Results

The ongoing results should include, for example, efforts to reach consensus on an agreement on transparency in government procurement. They should include extension of the WTO's standstill on tariffs applied to electronic transmissions, so development of trade over the Internet is not slowed by trade barriers. This is a significant shared interest. And it should include work toward consensus on an "Information Technology Agreement II" to further ensure access for all to the most modern technologies.

Finally, progress on the Accelerated Tariff Liberalization initiative begun in APEC and now under consideration at the WTO is very important. Japan's reluctance to participate in the wood products and fishery sectors has been very damaging. As I noted earlier, it has deprived Asia's developing countries of an important market during crisis, and raised questions about Japan's leadership and commitment to reform of key inefficient areas of its economy. In accordance with our agreement at Kuala Lumpur, we are looking to make progress on this initiative at the WTO. Japan's constructive participation is essential.

2. Accelerated Negotiations

The agenda of the Round itself will clearly be founded in a few basic issues, which offer opportunities to our own countries and to developing countries.

One is agriculture, where reform is fundamentally important to the future economic efficiency of Japan.

Another is services, whose importance to Japan can only grow as economic restructuring continues. Japan's own "Big Bang" in financial services represents its understanding of this reality. Here we can work together to seek deeper and broader commitments to liberalization and national treatment, addressing some of the weak regulatory practices which helped spark the financial crisis, easing commerce and growth through open, competitive distribution and transport systems.

Our interests also coincide in many aspects of industrial trade. Our industries share great interest in reducing tariffs; and we also share a responsibility to ensure access in areas of competitive advantage for developing countries.

Other areas we are discussing include government procurement. This is an area where we can build on the foundation of an agreement this year on transparency; the scheduled review of the Uruguay Round's agreement on intellectual property -- with the principal focus on implementation of commitments; and the proper treatment of issues such as competition and investment policies.

3. Institutional Reform of the WTO

The final dimension is institutional reform, to strengthen the WTO's ability to support real-world commerce, improve its cooperation with other international institutions, and broaden its public support.

Japan's stake in this is immense -- as a nation which depends on industrial exports, Japan requires a strong trading system as a bulwark against protectionist sentiments in difficult times. And to preserve its strength, the trading system requires the support of constituencies and citizens outside the worlds of business and government.

Here we hope to take up such issues as:

- Trade facilitation.
- Capacity-building in developing countries.
- Coordination between the WTO and the international financial institutions, where sensible trade policies can help advance and complement financial stabilization.
- The intersection between trade and environmental policies: trade liberalization can complement work to ensure clean air, clean water and protection of our natural heritage.

-- The intersection between trade and labor: as it has in America and Japan, growth should go with elimination of exploitative child labor and respect for core labor standards.

-- Finally, reform and openness in the WTO itself to create a broader base of public understanding and support. Some practical steps -- rapid release of documents, finding other ways for civil society to contribute to the WTO's work, and opening dispute settlement proceedings to public observers -- can have large implications for a stronger trading system in the next decade.

CONCLUSION: THE MINISTERIAL AND THE YEARS READ

This is the work that begins with our role as host and Chair of the WTO's Third Ministerial Conference this fall. And Japan -- as the world's second largest economy, the economic leader of Asia, our second-largest trade partner -- is crucial to success.

In the year ahead, we will pursue our bilateral agenda of deregulation and market opening in Japan; and we will create the agenda for the trading system in the years ahead. Indeed, as we cap forty years of alliance for peace and security in the Pacific and work together to extend it into the 21st century, we can also reform and improve our trade relationship, and open a new era of reform, growth and opportunity as the next century begins.

It is a great opportunity -- and one we must not miss.